Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 5/14/2003

GAIN Report #RS3014

Russian Federation

Dairy and Products

Semi-Annual

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Report Highlights:
Weather conditions in 2002 and 2003 created a fodder supply problem which is forecast to lead to a decrease in the Russian dairy herd and dairy production. Despite the feed situation, the slow upward trend in milk yield per cow continues due to better animal husbandry practices and facility management. Imports of cheese and butter are forecast to grow in 2003 to meet the strong demand on the Russian market. Discussions within the Russian Government of new trade barriers against dairy imports has led to concern among Russia's trading partners.

Includes PSD changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Moscow [RS1], RS

Executive Summary

Production of milk and dairy products is expected to fall in 2003 due to feed availability problems associated with the long winter and late spring. In response, producers in the more seriously affected regions slaughtered some of the dairy herd. Though herd size is forecast to decrease in 2003, the trend of increasing milk yield has remained buoyant. The decrease in local production is forecast to create opportunities for the growth of butter and cheese imports during 2003. Following the creation of tariff rate quotas (TRQ) on imported meat products, concerns have arisen in the trade over discussion within the Russian Government about the possible imposition of trade barriers against butter and cheese.

Production

Production of milk and dairy products is expected to fall in 2003 as many farms face short fodder supplies. Heavy frosts, a long and cold winter, and late spring put pressure on fodder supplies during the winter of 2002-2003 even as fodder supplies were already under strain from the dry weather in the summer of 2002. Though feed was relatively cheap most of the fall and winter, most farms did not or could not purchase extra winter supplies to hedge against the possibility of an abnormally severe winter. Farm budgets are currently stretched and more time on purchased feed and fodder is much more expensive than having the cows in pasture. As a consequence, producers in some of the more seriously affected regions have slaughtered some of the dairy herd in response to the feed situation. Though the forecast dairy herd size has been decreased by two percent since the last report and is two percent lower than 2002, milk output will only decrease by one percent. The fact that the trend of increasing milk yield has remained buoyant even in a year that faces diminishing feed supplies indicates that further increases in milk yields are likely in coming years as the fodder situation returns to normal.

Production of butter and cheese are forecast to decrease in 2003 by four percent and six percent, respectively. Much of this decrease will be felt in the second half of 2003, when the processing cycle shows the effects of the lower dairy herd and milk production. Butter and cheese production suffered from lower milk supplies and continued lack of infrastructure necessary to bring high quality raw milk to processing facilities. Significant spare processing capacity remains for each of the key dairy processing sectors. The Russian data showing stable production of butter and cheese in early 2003 may be somewhat deceptive partly due to the repackaging of bulk import shipments in consumer-ready sizes and counting the final product as domestic production under Russian rules of origin.

Inadequate infrastructure and technology continue to pose serious problems for regions farther from Moscow and St. Petersburg. Regional production is more often concentrated on smaller dairy farms that do not have equipment to store milk. One solution being used in Rostov-on-Don is newly distributed technology that allows small farmers to process milk into semi-ready, spreadable cheese.

Consumption

Consumption of fluid milk is forecast to decrease in 2003 due to lower production. However, butter consumption will increase and cheese consumption will suffer only minor declines as imports compensate for the lack and quality of local production.

Trade

Imports of dairy products increased strongly in early 2003 to compensate for the weak local production and strong demand due to rising consumer incomes and desire for a greater amount of dairy products in their diet. Cheese imports are forecast to increase by 14 percent in 2003, as demand drives both high and low quality cheese imports. Butter imports are also forecast to increase, by 13 percent, in part due to the lifting of the five percent special duty in January 2003. The growth of butter imports was accompanied by the reduction of contract prices from $1,390 per ton in 2000 to $1,210 in 2002, which in part triggered the special duty.

Belorussia has begun to play a bigger role on the Moscow market due to a recently signed agreement regarding dairy products trade. According to the agreement signed in late 2002, Belorussia supplies Moscow with dairy products, including dry milk, butter and cheese. These products are part of the significant quantities of food products the city purchases for social institutions financed and run by the city government. In turn, Moscow is also investing into raw milk production and processing in Belorussia in order to maintain the supply and quality of these products.

Table 1: Russian Foreign Trade, By Dairy Product, 2001-2002

	Export		Import	
	2001	2002	2001	2002
0401 Milk (Not Concentrated)	8,925	9,800	33,066	11,310
0402 Milk (Concentrated)	45,613	35,085	85,406	26,005
0403 Buttermilk	19,512	26,402	50,040	35,661
0405 Butter	4,911	2,824	136,571	120,334
0406 Cheese	3,928	3,517	137,211	135,433
Total	82,889	77,628	442,294	328,743

Source: Russian State Statistic Committee

Prices

Regional governments have been stepping into the market more often to rectify what they believe are market imbalances that favor processors and traders at the expense of producers. In Kursk oblast, an example of an average milk producing region in European Russia, the price of raw milk was 5.5 rubles per kilo in the winter and 2.5 rubles per kilo in summer of 2002. The share of profits of participants of the milk production-processing trade industry chain was the following: 33 percent to the farmer, 42 percent to processor, and 25 percent to the trade. In the more developed Belgorod region, the ratio was: 54-33-13. The Kursk administration plans to oblige processing facilities to sign contracts with farmers to purchase milk from them at a fixed price, five rubles per liter, in order to more favorably distribute part of the final sales value to producers. These types of measures are not uncommon, but fail to resolve the overall structural problems in the Russian market in terms of information and competition among traders and end users.

Table 2: Retail Price of Fluid Milk, Rubles Per Liter

	January 2002	January 2003
Whole raw milk	9.23	9.81
Pasturized milk, 2.5-3.2 fat content	11.37	11.96

Source: Economicheskaya Zhizn, #9,2003

Policy

The Russian Government has stated that it is reviewing whether measures need to be taken to restrict access to the Russian market for butter and cheese. The rationale for the discussion is similar as that used for the creation of TRQs on beef and pork in 2003. This action would be targeted at raising domestic farm gate prices and providing Russian producers with protection from imports in order to increase production. However, it was noted that high quality cheese varieties would likely be excluded from the limitation.

This discussion within the government is the result of the request sent by the Union of Livestock Husbandry to the Commission on Protective Measures in Foreign Trade. According to the Ministry of Agriculture, these measure are necessary because subsidized dairy products imports harm domestic dairies. Imports are blamed for butter producing facilities using only 24 percent of available processing capacity and cheese producers using only 55 percent. However, many butter traders and local butter producers are not happy with the prospect of import limitations. As the quality and quantity of local butter in many cases is not in compliance with the requirements of food industry, high prices will cause consumption of different mixtures of cheap vegetable oil and butter. Over the short term, they fear that consumers will permanently switch to margarine or other non-butter spreads due to higher prices on butter.

Marketing

Experts evaluate the Russian market for spreadable cheese at 70,000-80,000 MT annually. The biggest producers of spreadable cheese in Russia are the German Hochland and Finnish Valio brands. The French company Lactalis, which produces the cheese brand "President", recently opened a production facility not far from Moscow with an investment value of about $14 million to increase its presence on the market. The plant will manufacture 6,000MT of the product annually and plans to double production if the project meets sales goals. Raw material is currently imported form New Zealand, but the plant management is looking for local suppliers.

The German company Onken, a world leader in yogurt, and its Russian distributor Biomix 2000 recently opened a yogurt production plant in the Belgorod region. The enterprise's first production line has rated capacity for the processing of 100 tons of milk daily. Milk for making the yogurt will be supplied from Russian farms. The product will be traded throughout Russia and exported to Ukraine. According to Onken, it will look to become one of the five largest domestic milk processors and completely replace imported product with that made locally. However, competition in the yogurt market is currently already stiff between Danone, Ehrmann, and other western companies with production in Russia.

Table 3: Production, Supply, and Distribution of Fluid Milk

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Fluid					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Cows in milk, 1,000 heads	12500	12500	12300	12200	12150	11900
Cows Milk Production	33000	33000	33250	33500	33200	33150
Other Milk Production	0	0	0	0	0	0
TOTAL Production	33000	33000	33250	33500	33200	33150
Intra EC Imports	0	0	0	0	0	0
Other Imports	84	84	85	85	90	90
TOTAL Imports	84	84	85	85	90	90
TOTAL SUPPLY	33084	33084	33335	33585	33290	33240
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	5	5	5	5	5
TOTAL Exports	5	5	5	5	5	5
Fluid Use Dom. Consum.	14140	14140	14100	14350	14000	14000
Factory Use Consum.	15800	15800	16160	16160	16240	16190
Feed Use Dom. Consum.	3139	3139	3070	3070	3045	3045
TOTAL Dom. Consumption	33079	33079	33330	33580	33285	33235
TOTAL DISTRIBUTION	33084	33084	33335	33585	33290	33240

Table 4: Production, Supply, and Distribution of Butter

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Butter					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	30	30	27	27	22	22
Production	270	270	275	280	265	270
Intra EC Imports	0	0	0	0	0	0
Other Imports	110	110	120	120	135	135
TOTAL Imports	110	110	120	120	135	135
TOTAL SUPPLY	410	410	422	427	422	427
Intra EC Exports	0	0	0	0	0	0
Other Exports	3	3	5	5	5	5
TOTAL Exports	3	3	5	5	5	5
Domestic Consumption	380	380	395	400	400	405
TOTAL Use	383	383	400	405	405	410
Ending Stocks	27	27	22	22	17	17
TOTAL DISTRIBUTION	410	410	422	427	422	427

Table 5: Production, Supply, and Distribution of Cheese

PSD Table						
Country:	Russian Federation					
Commodity:	Dairy, Cheese		1,000 MT			
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	7	7	8	8	8	8
Production	260	260	300	340	320	320
Intra EC Imports	0	0	0	0	0	0
Other Imports	140	140	140	140	150	160
TOTAL Imports	140	140	140	140	150	160
TOTAL SUPPLY	407	407	448	488	478	488
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	5	5	5	10	10
TOTAL Exports	5	5	5	5	10	10
Human Dom. Consumption	394	394	435	475	458	468
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	394	394	435	475	458	468
TOTAL Use	399	399	440	480	468	478
Ending Stocks	8	8	8	8	10	10
TOTAL DISTRIBUTION	407	407	448	488	478	488

Table 6: Production, Supply, and Distribution of Dry Whole Milk Powder

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Dry Whole Milk Powder					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2002
Beginning Stocks	0	0	0	0	0	0
Production	110	110	120	120	120	115
Intra EC Imports	0	0	0	0	0	0
Other Imports	15	15	16	16	20	20
TOTAL Imports	15	15	16	16	20	20
TOTAL SUPPLY	125	125	136	136	140	135
Intra EC Exports	0	0	0	0	0	0
Other Exports	6	6	6	6	6	6
TOTAL Exports	6	6	6	6	6	6
Human Dom. Consumption	119	119	130	130	134	129
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	119	119	130	130	134	129
TOTAL Use	125	125	136	136	140	135
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	125	125	136	136	140	135

Table 7: Production, Supply, and Distribution of Nonfat Dry Milk

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Nonfat Dry					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	0	0	0	0	0	0
Production	130	130	140	140	130	130
Intra EC Imports	0	0	0	0	0	0
Other Imports	50	50	50	50	60	60
TOTAL Imports	50	50	50	50	60	60
TOTAL SUPPLY	180	180	190	190	190	190
Intra EC Exports	0	0	0	0	0	0
Other Exports	15	15	20	20	25	25
TOTAL Exports	15	15	20	20	25	25
Human Dom. Consumption	165	165	170	170	165	165
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	165	165	170	170	165	165
TOTAL Use	180	180	190	190	190	190
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	180	180	190	190	190	190